ANNUAL REPORT 1987-88

BRITISH COLUMBIA
FERRY CORPORATION

MINISTER'S MESSAGE

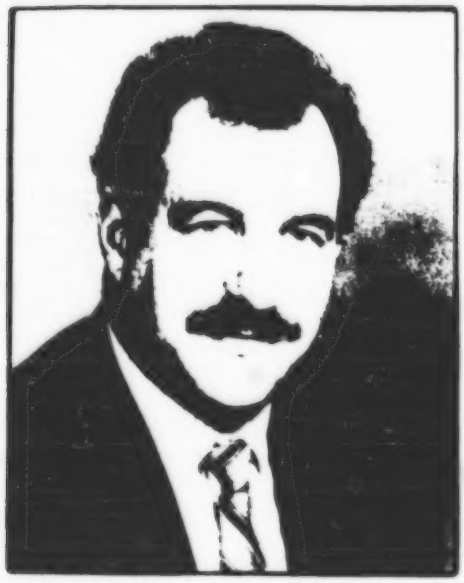
The Honourable
ROBERT G. ROGERS
Lieutenant-Governor
of the Province of British Columbia

MAY IT PLEASE YOUR HONOUR

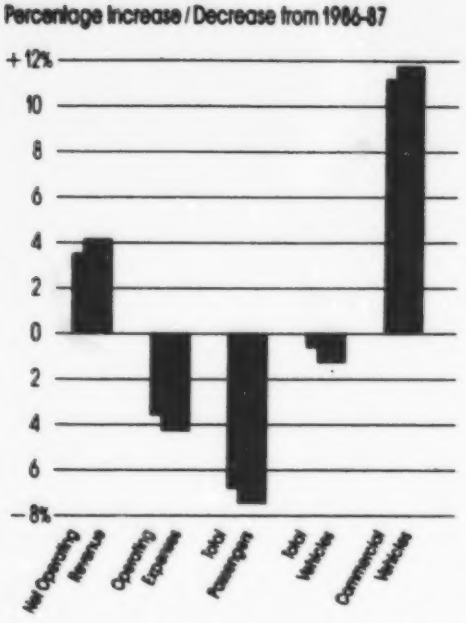
I respectfully submit herewith the Annual Report of the British Columbia Ferry Corporation for the fiscal year ended March 31, 1988 in compliance with the provisions of the Ferry Corporation Act.

Stephen Rogers
Minister of Transportation and Highways
Minister Responsible, British Columbia Ferry Corporation

June 29, 1988



HIGHLIGHTS OF THE YEAR



Net Operating Revenue **+3.7%**

Revenue increased by $5.6 million from 1986-87 to 1987-88, from $151.3 million to $156.9 million. While traffic levels have dropped from the peak associated with Expo 86, the tariff increase granted on February 15, 1987 helped to maintain a healthy level of revenue.

Operating Expenses **−3.6%**

Operating Expenses have declined by 3.6% to $176.1 million. This has resulted from the service reductions from the extended schedules and supplementary vessels used to meet the demands of Expo 86. Expenses are above pre-Expo level because traffic patterns have required the redeployment of ships on some routes and/or additional sailings on some routes.

Income/Loss After Subsidy and Depreciation

The income/loss has improved for the second consecutive year, from a deficit of $9.6 million in 1986-87 to a surplus of $1.6 million in the current year. This is the result of effective control on expenditures to respond to falling traffic, and moderate tariff adjustments. The subsidy remained stable over the 2 years, at $57.0 million.

Total Passengers **−6.7%**

Passenger traffic contracted by 1.2 million trips, to 17.0 million. While lower than the Expo related peak of 1986-87, this is substantially higher than the last comparable year, 1985-86, by 26.0%.

Total Vehicles **−0.5%**

Vehicle traffic fell by 35,000 trips from 1986-87, to 6.5 million. This compares very favourably to the 1985-86 year when 5.0 million vehicle trips were sold.

Commercial Vehicles **+11.3%**

Commercial vehicle traffic increased by 11.3% (approximately 23,000 units).

STATISTICAL REVIEW

Year Ended March 31	1988	1987	1986	1985	1984
Financial: (expressed in thousands of dollars)					
Operating revenue – gross	168,488	163,954	144,900	125,530	120,514
Operating expense	176,083	182,616	166,245	125,308	132,553
Operating loss before subsidy	19,145	31,281	20,535	8,771	21,213
Subsidy	57,000	57,000	40,000	43,000	43,000
Cash flow from operations	27,231	20,309	18,032	28,355	17,198
Depreciation and amortization	29,663	29,552	29,013	31,064	30,586
Interest on debt	12,223	10,387	7,132	5,177	6,198
Working capital (deficiency)	12,202	(5,172)	(9,353)	2,536	(6,799)
Net additions to property	9,292	1,817	68,219	12,456	7,142
Total assets	365,230	372,523	349,416	309,622	313,323
Long-term debt	31,858	37,558	43,258	43,258	43,258
Obligations under capital leases	87,791	88,591	47,861	—	—

Certain of the above figures for 1987 and prior years have been modified to make them comparable with the 1988 figures.

Operations:					
Traffic (expressed in thousands) (Note)					
Passengers	17,014	18,235	13,497	11,913	12,398
Vehicles	6,491	6,526	5,049	4,460	4,483
Miles (expressed in thousands) (Note)					
Passengers	317,424	375,893	286,568	269,703	283,745
Vehicles	114,816	123,970	101,426	96,531	97,569
Utilization % (Note)					
Passengers	27	34	30	28	25
Vehicles	63	60	60	59	56

Note — Operations data for Traffic and Miles includes data from the Northern Gulf Island routes acquired from the Ministry of Transportation and Highways in October, 1985 from the date of acquisition. The utilization and calculation for the Northern Gulf Island routes, however, was consolidated on April 1, 1987 for the 1987/88 fiscal year and is not included in the calculation for prior years.

Left: Jay Bannister, Secretary at the terminal office.

Right: Barry Marsh, Harbourkeeper, sews covers for chairs and gear.

BRITISH COLUMBIA FERRY CORPORATION

The history of BC Ferries began in 1960 when the government started frequent ferry service between Vancouver and Vancouver Island.

In January 1977, the British Columbia Ferry Corporation was established — a Government of British Columbia Crown Corporation, responsible to the people and the communities we serve.

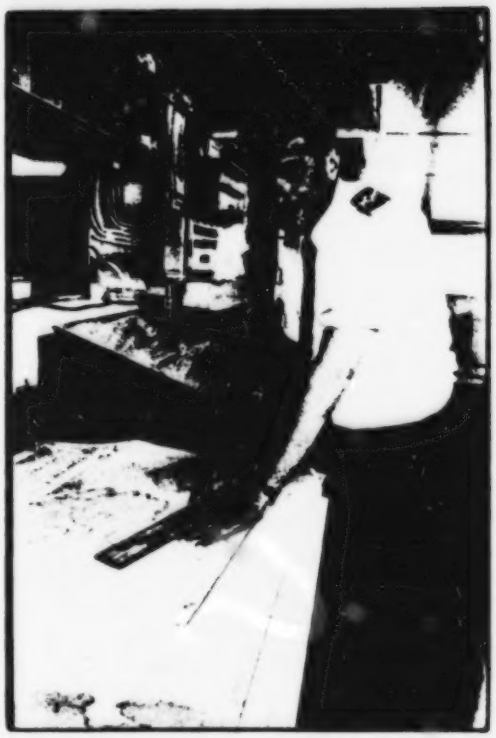
Today, this Crown Corporation has 38 vessels on 26 routes, and is an integral part of the British Columbia economy. BC Ferries links Vancouver Island to the Lower Mainland with two separate routes. It links the many small islands of the Strait of Georgia to either Vancouver Island or the Mainland and serves the communities of the Sunshine Coast.

It also operates services connecting Prince Rupert, on B.C.'s north coast, to the Queen Charlotte Islands and to northern Vancouver Island.

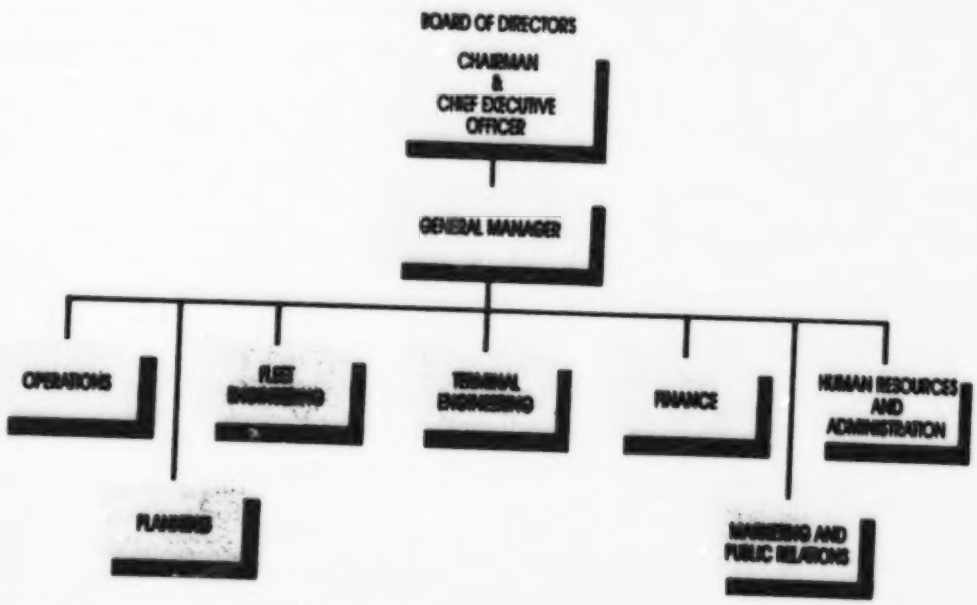
Over 2600 employees have a part in operating this fleet, which carried 6,490,918 vehicles and 17,014,098 passengers in the 1987/88 fiscal year.

BC Ferries relies on a strong sense of professionalism and expertise to meet the needs of a growing number of commercial travellers, business travellers, residents and visitors who use the ferry system to travel to so many destinations. And, with its FriendShip Fleet sailing through the scenic wonders of westcoast British Columbia, BC Ferries continues to play a key role in the provincial tourism picture.

BC Ferries is a world-class fleet.



Above: Second Officer Stan Pedersen plots a course on the bridge.



BOARD OF DIRECTORS

R. W. Long
Chairman of the Board &
Chief Executive Officer

R. H. Wright
Vice-Chairman

R. Morrison
General Manager

P. L. Morris
Corporate Secretary

R. WILLIAM LONG, Chairman of the Board, was appointed in January, 1987. He brings to the Corporation many years of experience in municipal and provincial administration.

ROBERT H. WRIGHT, Vice Chairman, has been a Director since 1981. A resident of Oak Bay, he is President of Oak Bay Marine Group. He is Chairman of the Executive Committee and a member of the Planning Committee.

BARBARA J. DUGGAN was appointed a Director in March, 1988. She is currently Manager of Corporate Communications for the Vancouver Port Corporation. She is a member of the Board's Finance and Executive Committees.

ARTHUR P. LLOYD was appointed to the Board in September 1987. He is a resident of Salt Spring Island, having retired after a career in the lumber industry. He is Chairman of the Audit Committee and a member of the Planning Committee.

HAROLD J. LONG was appointed a Director in November, 1986. He is a long-time resident of Powell River, and is currently the sitting member for the constituency of Mackenzie.

JOSEPH MORRIS was appointed a Director in May, 1984. A past President of the Canadian Labour Congress, he is now semi-retired and lives in Saanich. He is Chairman of the Finance Committee and of the Computer Committee.

ALLAN OKABE was appointed in March of 1988. A resident of Prince Rupert, he brings to the Board his experience of north-coast marine operators from his ownership of Okabe Shipyards. He is a member of the Audit and Finance Committees.

CLIFFORD M. (MACK) STONE was appointed in March 1988. He is a resident of Parksville on Vancouver Island. While a mechanical engineer by profession, he now has a variety of small-business interests. He is a member of the Board's Planning and Finance Committees.

MICHAEL D.W. YOUNG is a practising lawyer resident in Victoria, and is a former mayor of Victoria. He has been a Director since 1981, and is Chairman of the Planning Committee and a member of the Computer Committee.

Scott Peterson, Warehouse Foreman, takes inventory of lifeboats stored at the yard.

REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

To The Honourable
C. Stephen Rogers
Minister of Transportation and Highways

The 1987/88 fiscal year has been a year of successful transition for BC Ferries, and we have seen strong growth throughout the system.

The result of this very positive trend has been an improvement in net income. Projections indicate that traffic growth will continue at a steady level and the Corporation is involved in research which will show us how best to increase our service capacity to be in a position to meet the challenge of this growth.

This is a challenge and opportunity that demands major financial commitments in the years ahead, and the Corporation has initiated discussions with the Province to ensure that we have adequate financial resources for this project.

In mid-1987, there was a major change in BC Ferries' management structure. Mr. George Baldwin retired, after being General Manager for seven years. Mr. Rod Morrison, formerly the Assistant General Manager, Human Resources, became our new General Manager. At the same time, the Assistant General Managers of Finance and Operations both retired.

I'm pleased to say that these vacancies were filled from within the Corporation's management team and the Board is confident in the ability and expertise of the middle, and senior management group.

Also, during the year, there were several changes on the Board. Mr. Art Lloyd, of Ganges on Salt Spring Island, was appointed in September, 1987. In March 1988, three new Directors were appointed: Mrs. Barbara Duggan of Vancouver, Mr. Allan Okabe of Prince Rupert, and Mr. C.M. (Mack) Stone of Parksville.

The Board and the management group extend their sincere appreciation to the retiring Directors: Messrs. Duncan, Michaud and Price, and Dr. Hick, for their interest, input, guidance and direction.

Both the Board and BC Ferries' management group saw these internal and external changes as an excellent opportunity to undertake a thorough analysis of its mandate, goals and objectives for the coming years.

This analysis will determine the direction the Corporation will take as it moves toward the 21st century.

Our employees are an essential part of this process and we will involve them in every level and facet of the operation. This is a two-way process of discussion, and it will be increasingly potent as we incorporate the knowledge and experience of all of our employees.

The Board is united in its sense that the collective experiences, knowledge, abilities and perceptions of the Corporation's people — at all sites and in all roles — will affirm the Corporation's role in the economic and social life of the province.

On behalf of the Board

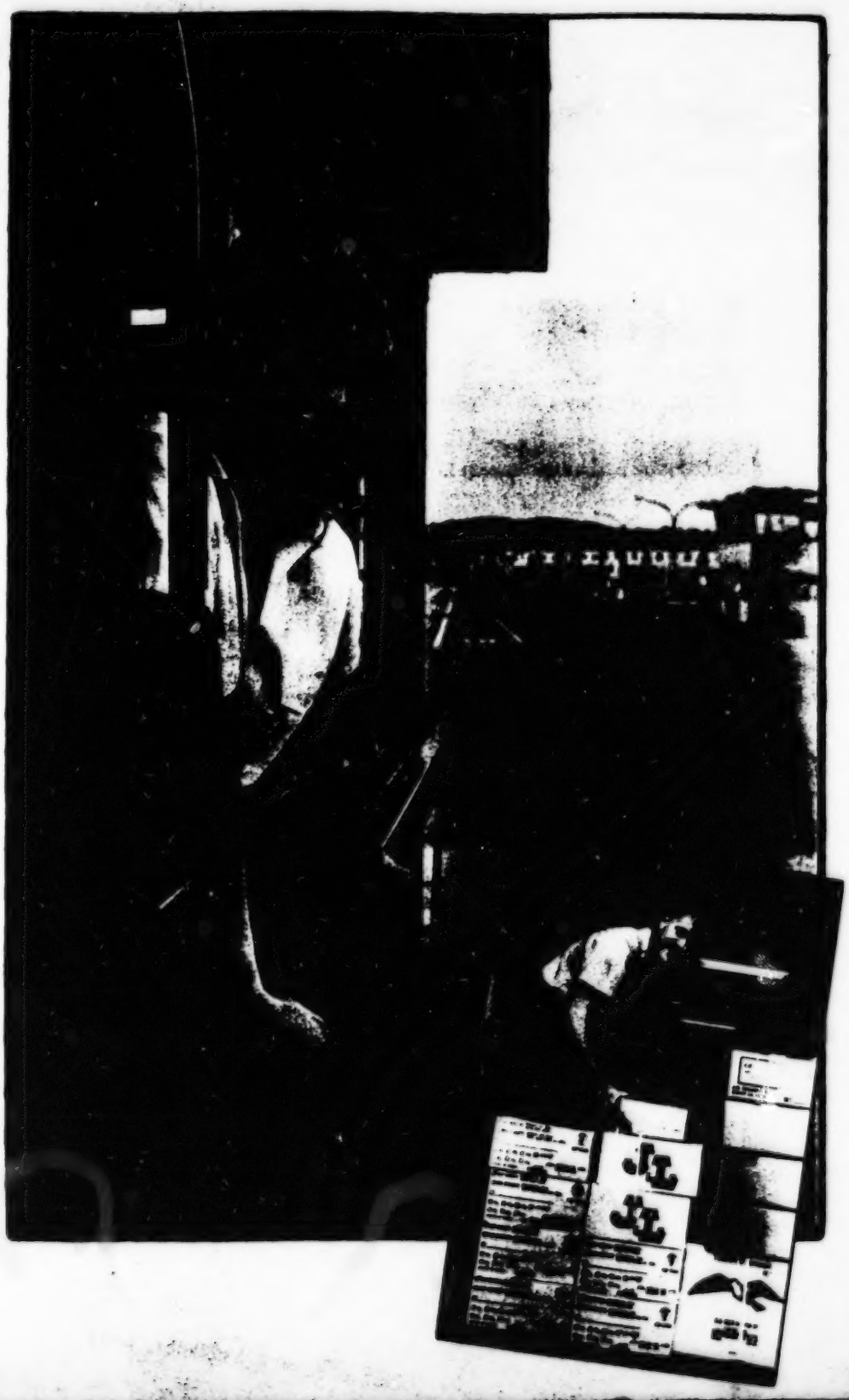
R.W. Long
Chairman & Chief Executive Officer

R. W. Long, Chairman of the Board and Chief Executive Officer

Above: C. Garrison White, First Mate, loads vehicles on deck for departure.

Right: Cathy Brown, Ticket Agent, in the vehicle ticket booth.

Below right: Handling ships' catering stores at the loading bay is Bill Lumley, Stockman.



REPORT OF THE GENERAL MANAGER

Throughout the fleet, this year has been a year of motion. A year of moving ahead, in thought and action.

It was a year in which the British Columbia Ferry Corporation saw a change of General Manager and three Assistant General Managers.

Captain Charlie Partridge assumed the responsibilities of Assistant General Manager of Operations; Mr. Bud Harbidge those of the Assistant General Manager of Human Resources and Administration; and Mr. Glen Brown became the Assistant General Manager of Finance.

These senior staff changes provided an excellent opportunity for me to travel throughout the fleet and meet the Masters, Chief Engineers, Chief Stewards, managers and employees, and for us to communicate with each other.

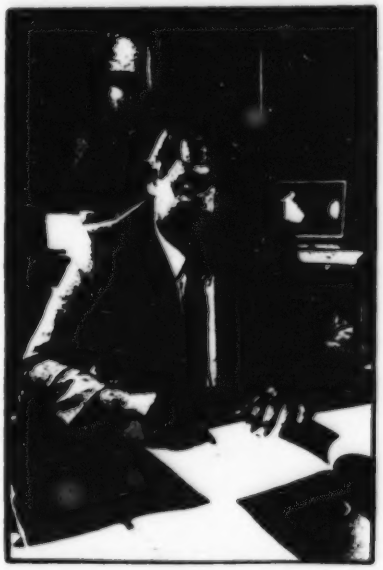
As well, this communication process has continued with meetings and seminars with our Senior Management. We have set up forums for discussion — Employee, Planning and Management Seminars — all forums which serve as a valuable framework to work toward the challenges of the future.

The Corporation is beginning a long-range planning program which is essential if we are to meet tomorrow's challenges. Any expansion program carries with it many positive benefits for those involved, yet we are well aware of the inherent frustrations that may be involved in any time-consuming ship-building projects that might be undertaken in the next years.

Presently, we are receiving the benefits of working with a Board of Directors that has come to know our staff. This Board has shown an unprecedented willingness to work with management on projects. In fact, the interfacing between the staff and the Board is as positive as I have ever seen.

As well, through this past year, we have been communicating directly with the communities we serve about their concerns. While we don't always settle or resolve an issue, we have shown that we are approachable and that we are prepared to discuss these issues.

There have been many specific ways in which the Corporation has moved ahead throughout the year.



R. Morrison, General Manager of the B.C. Ferry Corporation.

Operations

This year, traffic increased beyond expectations on our two major Mainland-Vancouver Island routes. During the 1987 summer period, semi-trailer traffic increased by 20 percent compared to 1986, and this continued through the rest of the year and into 1988.

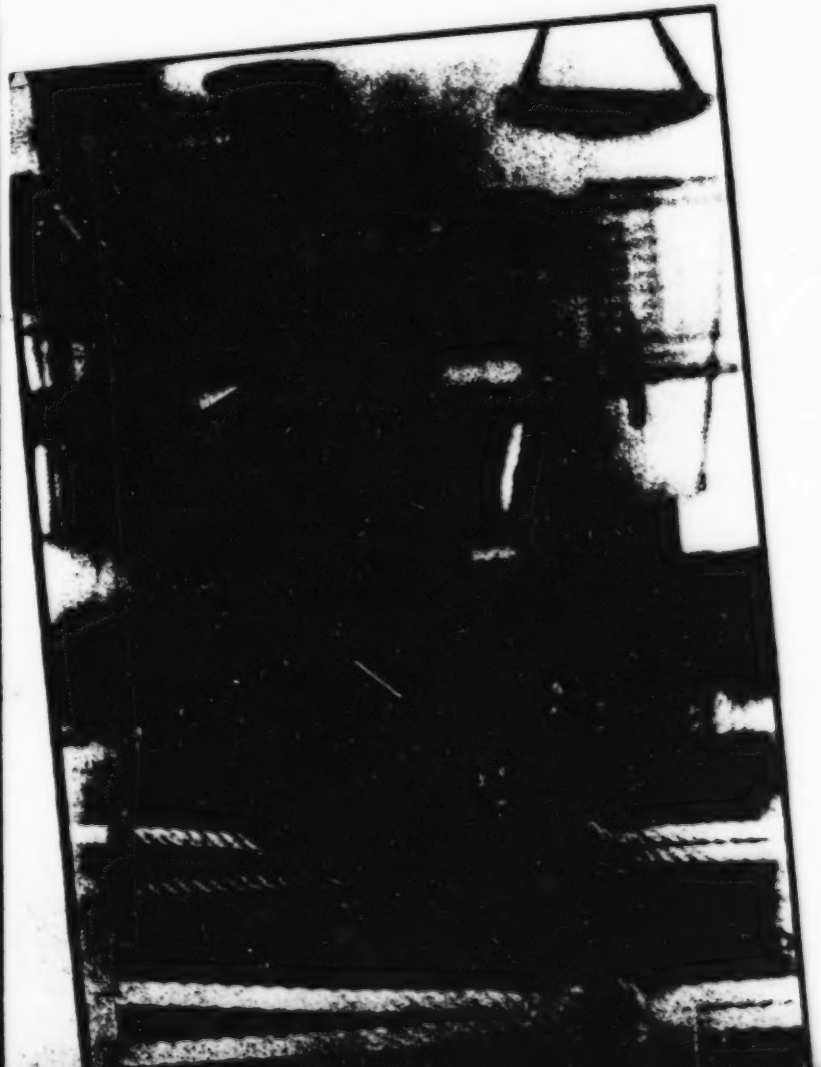
During the summer of 1987, private vehicle levels were lower than those of the EXPO 86 period, however the strong growth of private vehicle traffic (five percent) after September 1987 was unexpected. This growth pattern continues.

This strong trend in traffic emphasizes the need for additional ship capacity on many routes. Until we can provide this extra capacity, we can expect operating pressure.

With the opening of the new, enlarged terminal at Campbell River, a larger vessel has been able to replace the two smaller vessels. This resulting 50 percent manning reduction has meant substantial savings in crewing costs.

At Crofton, an arson-caused fire destroyed 50 percent of the dock and disrupted vehicle service to Vesuvius from September to early December. A passenger water taxi service was put in place while the dock was being rebuilt.

The Court decision in the Kimberly-Kwok case was brought down in January. The ruling was apportioned 70 percent to 30 percent in favour of Mr. Kwok.



Warren Mahood, Rigger, fabricates a "Jacob's ladder" used as safety gear on the large ships.

Catering & Passenger Services

Our major challenge of the past fiscal year was to maintain some of the growth patterns established in the record-breaking EXPO year.

We were successful in our concentrated efforts to develop seasonal opportunities for Gift Shops and Buffets. Our major routes are now producing peak season sales, per passenger, of up to $2.50. And, on the *M.V. Queen of the North* Day-Cruise, over $22.00 per passenger was achieved.

This year, we combined our efforts to maintain sales with a back-to-basics review of all our menu items. We completely reviewed staple items such as hamburgers, soups and desserts, to improve passenger satisfaction and gross profit production. We also took a number of steps to improve kitchen staff standards and to encourage the ships' Cooks to be more involved in the planning process.

Our food cost and gross profit production remains healthy due to stable market prices and selected price increases.

Since the expansion of Swartz Bay Stores and the computerization of both Swartz Bay and Nanaimo stores, the staff has been able to combine the handling and control requirements of food and gift shops. This has been very effective in allowing fewer staff to produce improved controls.

Fleet Engineering

Keeping our FriendShip Fleet of 38 ships operating efficiently during the year is of vital importance. And we do it with

the ships' drydocking and refit to keep them in peak operating condition, as well as take care of modifications and improvements.

During the past year, we modified *M.V. North Island Princess* from a longer run service vessel with live-aboard crew facilities, to a commuter-type ferry. We changed the lifesaving equipment to carry 293 passengers and modified the bow to operate at Campbell River.

We installed a new hydraulic passenger elevator in *M.V. Queen of Sidney* and modified and improved the passenger and crew washrooms. As well, we modified four platform deck ramps for the ship to operate on the Little River/Westview run.

On *M.V. Quadra Queen II* we extended the Boat Deck lounge to increase seating capacity. And we made modifications to the lifesaving equipment (to carry 293 passengers) and to the bow and stern openings so that the vessel can operate at more than one terminal.

On *M.V. Queen of Burnaby* we conducted a study to see how NautiCAN nozzles would affect the performance of the V-class vessels. The two NautiCAN nozzles were constructed for *Queen of Burnaby*, and are actually the first of their type to be built under Lloyds' Register of Shipping classification requirements. We will fit these nozzles during the coming Drydocking of the vessel, with sea trials before and after so we know how the nozzles affect performance.

We carried out other modifications on *M.V. Tachek*, *M.V. Queen of Alberni* and *M.V. Queen of Tsawwassen*.

We installed new water-tight doors on all four "V" class vessels, new generator sets in the *Queens of Victoria* and *Vancouver*, doppler logs in four "V" class vessels and *M.V. Queen of Nanaimo*, and new air conditioning on the *Queens of Vancouver, Saanich* and *Esquimalt*.

In all four "V" class vessels, we upgraded the P.A. systems, and upgraded the steering controls on *M.V. Powell River Queen*.

Our asbestos removal program involved 16 vessels at a cost of over $6 million. In the past two years, BC Ferries has spent close to $14 million removing friable asbestos from 25 vessels. A further six remain to be worked on in the coming fiscal year. This is the most ambitious marine program in B.C. We can take pride in providing a safer environment for employees and passengers.

During the year, there had been considerable damage to rubbing guards on the ships, requiring repairs at Deas Dock Refit Complex. Previously, we needed to take the vessel out of service to deal with this problem. Now, one or two welders can come to the ship from Deas Dock and carry out repairs at night.

At one time, we paid a considerable amount to deliver contaminated waste water to a disposal plant in Washington State, since waste disposal facilities do not exist in this area. Now, the new waste water treatment plant at Deas Dock reduces the amount of industrial waste we have to ship out to a small fraction of what it once was.

Top: An engine room electrical panel aboard ship is serviced by Electrician Marek Mirski while the ship is in refit.

Centre: Y. C. Kum, Catering Attendant, serves soup in the cafeteria.

Above: Carla Jackson, Cardex Clerk, keeps the records up-to-date in the Materials Department's cardex room.

We have trained three of our Deas Dock Supervisors in approved asbestos handling methods. Washington State Ferries sent several of their managers to Deas Dock to discuss asbestos removal with our Co-ordinator.

Terminal Engineering

There was a lot of activity at our terminals this year, with new construction, maintenance and planning.

We completely reconstructed the Campbell River Ferry Terminal, and rebuilt the Crofton Ferry facility.

Above: Betty Reily, Coffee Shop Supervisor, shines up the terminal cafeteria.

Right: Andrew Tabbernor, Mechanic, repairs a piston from one of the fleet vehicles.

At our Deas Maintenance facility, we constructed a new layby berth and sheet pile retaining wall and we have begun the reconstruction process on a loading ramp at Tsawwassen, which had been damaged in an accident.

We carried out various maintenance programs, using both outside contractors and in-house staff. Many of the pilings supporting various loading ramps were repaired or replaced. Major work went into many berthing structures and, at certain terminals, much of the steelwork received protective coatings.

These kinds of maintenance programs are vital to ensure the safety of our passengers, our operational efficiency and the preservation of the Corporation's assets.

This year, Terminal Engineering worked with the Planning Department to study the suitability of our existing facilities and to anticipate what work will be needed to cope with future traffic increases.

Finance

Throughout the year, we have continued the migration out of the Datapoint computer environment. New financial software was installed on IBM equipment and our staff implementation team tailored the financial software to the Corporation's requirements.

Financial reporting using the new financial software will be effective for the 1988/89 fiscal year.

In July 1987, we introduced a Commercial Travel Card (CTC) program to our Corporation's commercial customers. We offered the option of using cards rather than scrip at the ticket booths. This

reduced processing time and improved security for our customers.

In January 1988, we invited members of the British Columbia-based insurance community to submit proposals for insurance programs and coverage. The current broker of record, Reed, Stenhouse Limited, presented the successful proposal and was reappointed.

We appointed Mr. Glen Brown on September 1, 1987 as the new Assistant General Manager, Finance, after Mr. Joseph Estock retired.

As well, in September, we commenced renewal on the lease on *M.V. Quinsam*.

The Lieutenant Governor approved a tariff increase, to take effect on April 1, 1988.

Marketing & Public Relations

Because BC Ferries is a public transportation service as well as a provincial tourist attraction, the need for communication is constant.

We need to maintain our vital communication link between passenger and Corporation, visitor and a number one provincial attraction, trade and traveller, media and message, employee and employer, employee and employee.

We have many messages to communicate, in many different ways, at many different times, to many different listeners. Every day of the year.

Throughout the past year, we concentrated on establishing a sense of awareness of our FriendShip Fleet in the context of our employees and of our passengers. We have worked on strengthening the "people" side of BC Ferries.

We worked with tourism associations to receive the maximum benefits from trade shows and local travel events. We developed joint-venture programs with other transportation companies to ensure that maintaining awareness of BC Ferries' services continued to be cost-effective.

We used effective market surveys to let us know what our passengers had on their minds, what they liked and what they didn't, and we worked on ways to improve our service.

We began a valuable communication process with the travel media that allows us to get our message to markets we haven't reached before, and highlight travel opportunities. And continued to develop sound advertising and public relations programs to make ferry travel for our regular passengers as easy as possible.

Top: Seaman Ron Chapman steers the ship from the bridge.

Above: Stafford Abbott, Machinist, works at the drill press in the Machine Shop.

Planning

Planning ahead allows us to move into the future with full vision, and make the intelligent decisions along the way that will keep us able to greet, with ease, whatever lies ahead.

The Planning Department now reports directly to the General Manager, and continues to develop short and long-term Corporate planning options for Senior Management and the Board of Directors.

This past year, the Department developed traffic forecasts and long-range policy options to prepare for a planning retreat attended by Senior Management and the Planning Committee of the Board of Directors. This was part of the ongoing process of developing and monitoring ten-year Business and Budget Plans that will enable us to meet the challenges of the next decade.

Various short-range policy options were developed, including contingency ferry service for highway closures, streamlined contract ferry service delivery, alternative service configurations for multi-port routes and increased terminal throughput on major routes. As part of the budget review process, Planning prepared short-range traffic estimates for all routes, for 1987/88 and 1988/89.

Above: Master Norm Mains commands the ship's bridge and checks one of the two radar scopes on board.

Right: Key Operator Marnita Cawthra works at the computer in the Materials Department.

The Planning Department was also involved in the preparation of Tariff proposals for the 1988/89 fiscal period. They developed traffic and revenue forecasts which outlined the reve-

nue implications of various options, including the impact on various user groups.

The Department continues to research and develop a computerized traffic system which will enable traffic levels to be predicted for short-range planning.

As well, they regularly monitor federal and provincial legislation and regulations to determine the impact on the Corporation.

Human Resources & Administration

In 1987, we expanded Human Resources to include Administration, Executive Payroll, Office Services, Corporate Training, Safety and Security. The reorganization puts us in a better position to meet the ongoing challenges in the field of human resources.

Because of increased traffic demands, we were able to continue the current employee level without the downturn that we expected would follow EXPO 86. We continued our policy of promotion from within, whenever possible.

It was a smooth year for Labour Relations. We continued a healthy working relationship with the Union in this non-negotiating year, and no scheduled sailings were missed due to labour disruptions.

The Corporate Training Department was made responsible for supervisory and managerial training. During the fiscal year, there were 4900 training days for 2352 employees.

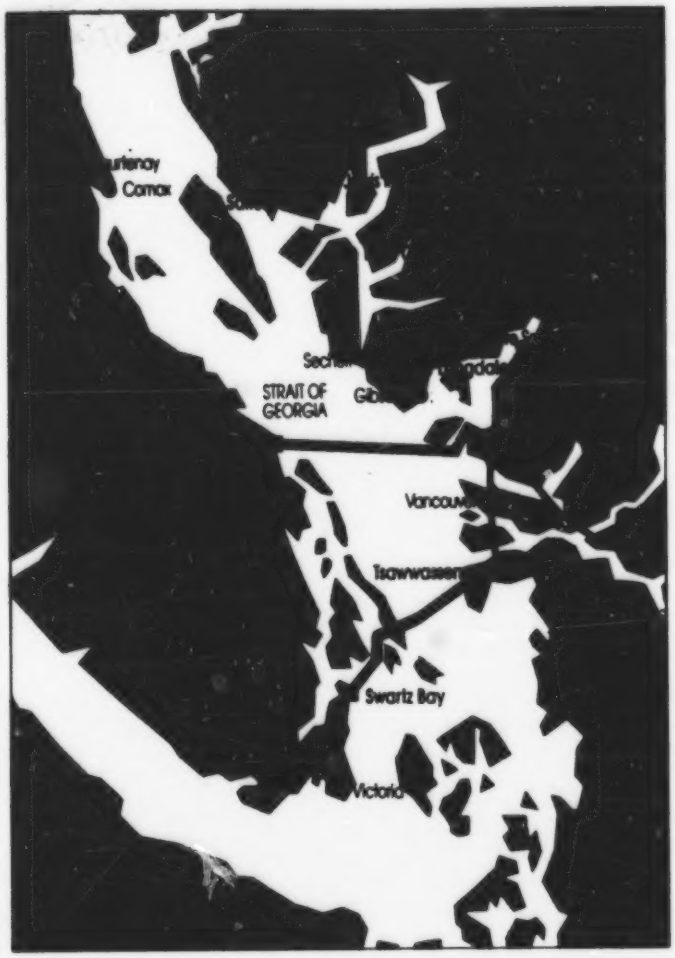
Training and upgrading the skills of our employees, at every level of the Corporation, is an important part of developing our valuable human resources. As well as encouraging employees to get the most out of their workplace, increased skills and confidence encourage them to give more back into it. Everyone benefits — our employees, our passengers and the Corporation.

Top: Chief Steward Peter Russell supervises the ship's cafeteria.

Centre: Derwyn Brooks (right) Dock Repairman with Terminal Maintenance, orders parts from Storesman Hans Luhmann at the warehouse.

Below: Tested and serviced liferafts are repacked and sealed by Jim Gillespie, Liferaft Serviceman.

VANCOUVER ISLAND



Vancouver Island Service Area

Our two major routes are between the Mainland and Vancouver Island.

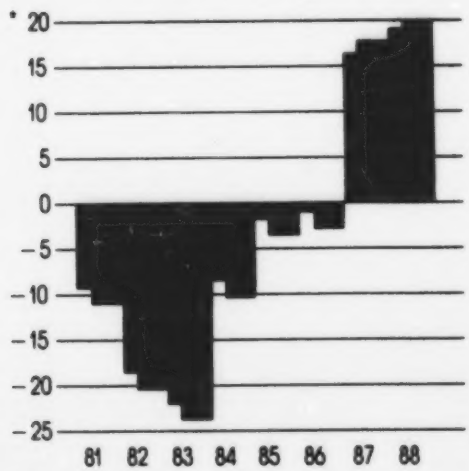
On these, our busiest and most efficient routes, our predictable traffic volume allows us the flexibility of having manned vessels available for peak periods.

During the 1987/88 fiscal year, we carried 5,172,598 passengers and 1,726,274 vehicles on our Tsawwassen/ Swartz Bay route and 3,759,361 passengers and 1,452,853 vehicles on our Horseshoe Bay/Nanaimo route.

The large volumes of traffic carried on these routes continues to keep revenue ahead of operating expenses.

This fiscal year, the net gain for this area was $19.2 million.

Income / Loss after Depreciation (Year Ended March 31)



(*Figures express millions)

Switchboard Operator Janet Mactavish answers calls at the terminal office.

SUNSHINE COAST

Sunshine Coast Service Area

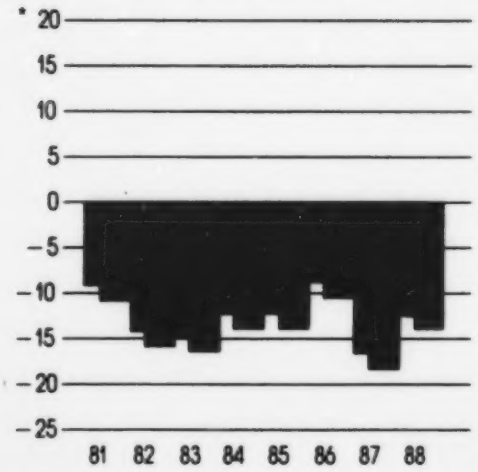
Traffic on the Horseshoe Bay/Langdale route still exhibits the heavy holiday and weekend traffic pattern, with lower volumes during weekdays.

There were 1,914,360 passengers and 811,050 vehicles carried on this route during the 1987/88 fiscal year, with increases over last fiscal year of 1.40 percent and 4.70 percent, respectively.

We are still able to service the Powell River/Comox route and Powell River/ Texada Island routes with smaller vessels because traffic volume has remained steady.

This fiscal year, the net loss for the area was $12.7 million.

Income / Loss after Depreciation (Year Ended March 31)



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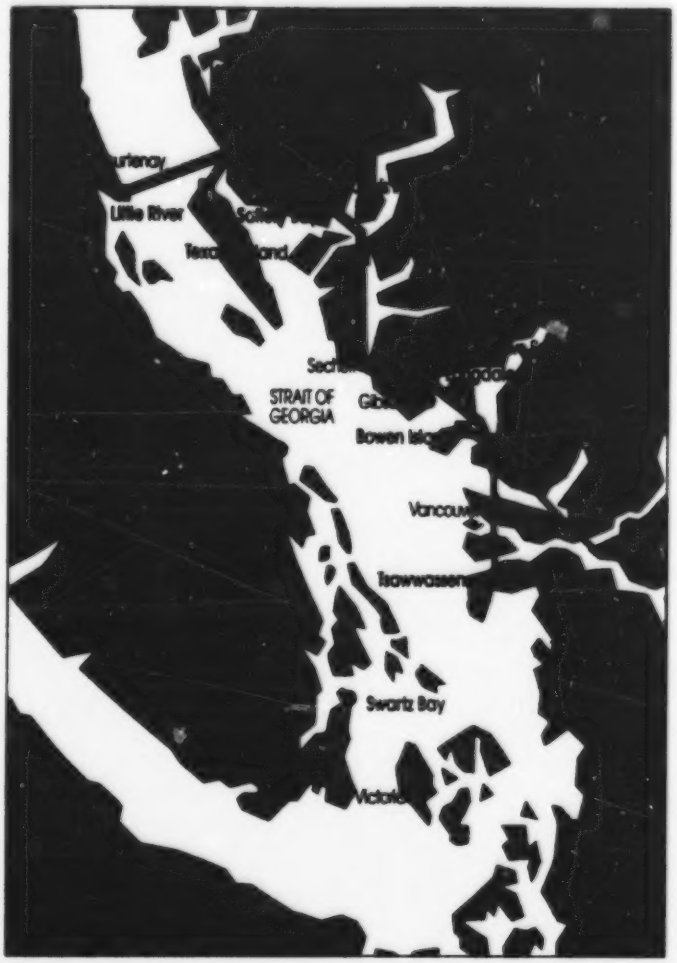


Labourer Tor Abrahamsen operates the forklift at the main Materials Warehouse.

SOUTHERN GULF ISLANDS

Dave Andronyk, Second Engineer, checks systems in the ship's engine room.

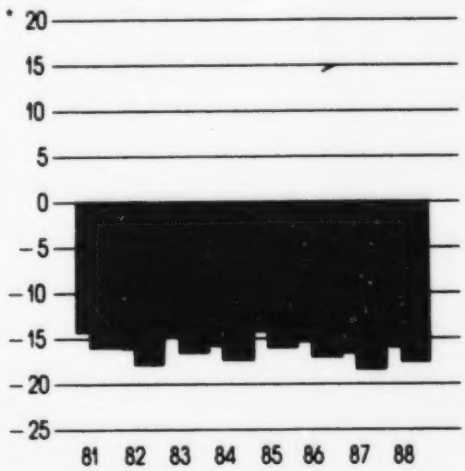
Southern Gulf Islands Service Area

Our ferry service to the Southern Gulf Islands remains a challenge. It takes a complex schedule to meet the needs of these multi-port destinations. As well, we must provide a service that is adequate to handle heavy peak traffic situations, but may be more than is needed at other times.

During the peak season, larger ships are assigned to the route. *M.V. Queen of Nanaimo* serves the Tsawwassen/Gulf Islands and *M.V. Queen of Tsawwassen* serves the Swartz Bay/Gulf Islands route.

This fiscal year, the net loss for this area was $16.2 million.

Income / Loss after Depreciation (Year Ended March 31)



(*Figures express millions)

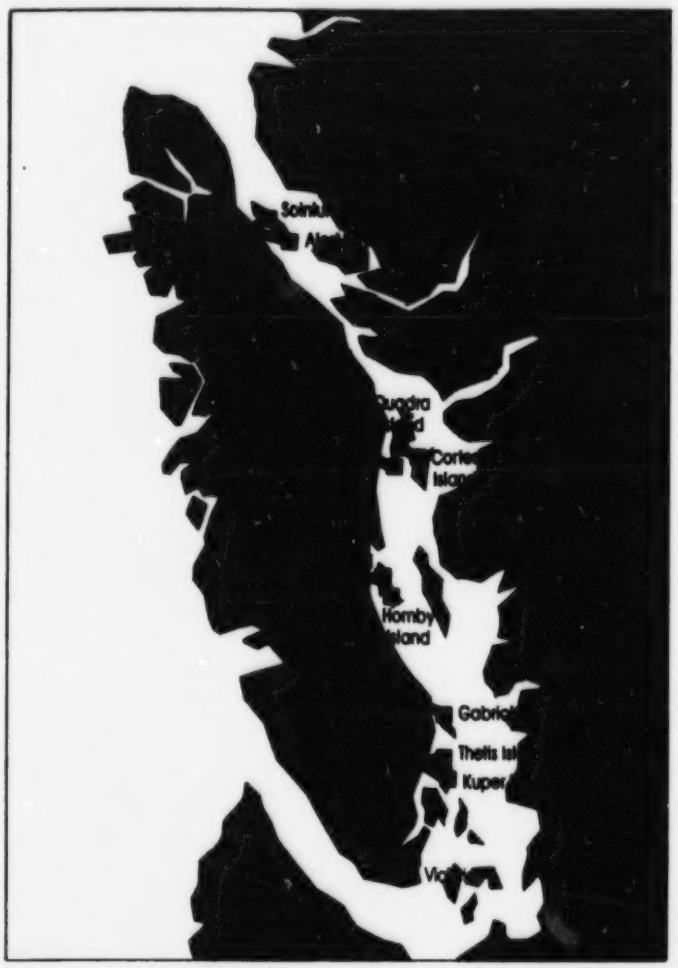
NORTHERN GULF ISLANDS

Northern Gulf Islands Service Area

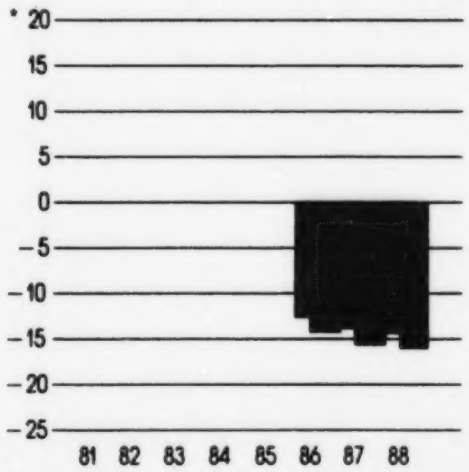
For the most part, these one-island destinations make scheduling much easier than on our Southern Gulf Islands routes.

In this second full year of operation, we have been able to fine-tune our vessel placement to meet the needs of the various communities we serve.

This fiscal year, the net loss for this area was $14.6 million.



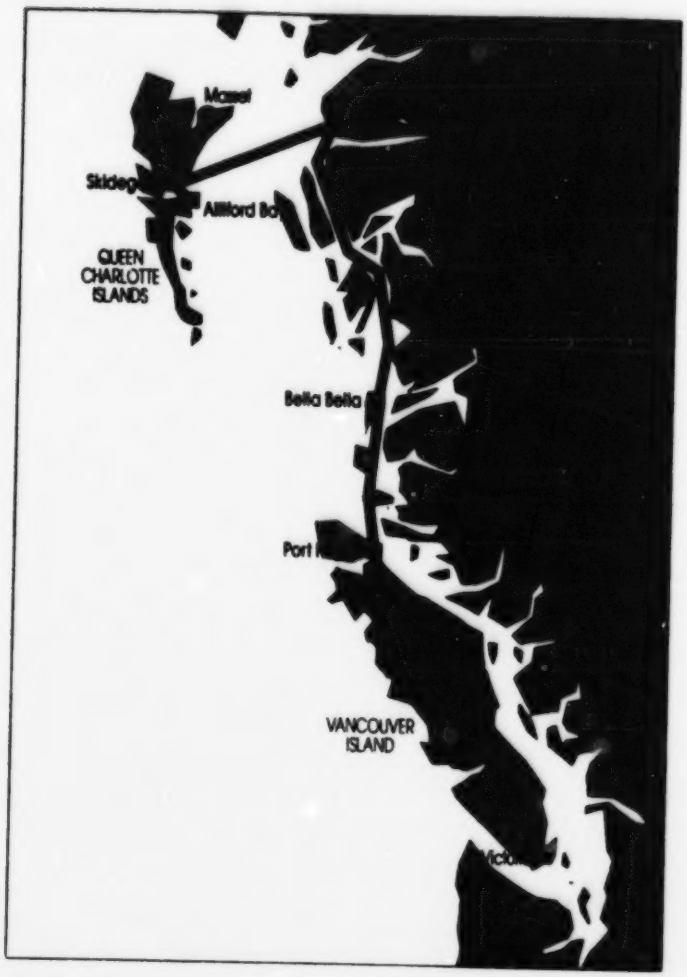
Income / Loss after Depreciation (Year Ended March 31)



(*Figures express millions)

Buyer John Melissen checks catalogues in the Purchasing Department's library.

INSIDE PASSAGE



Inside Passage and Queen Charlotte Islands Service Area

These northern routes provide a year-round service. During the off-season this service meets the needs of the residents in the area.

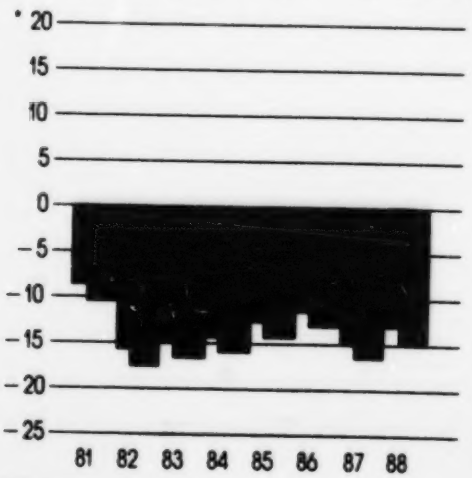
In the busy summer season the Inside Passage route is heavily booked as a popular holiday destination.

Visitors are discovering the Queen Charlottes as a vacation destination and there are now five round trips in the peak season, compared with three in the off-season.

A smaller vessel provides year-round service to the Queen Charlotte communities of Alliford Bay and Skidegate.

This fiscal year, the net loss for this area was $13.4 million.

Income / Loss after Depreciation (Year Ended March 31)

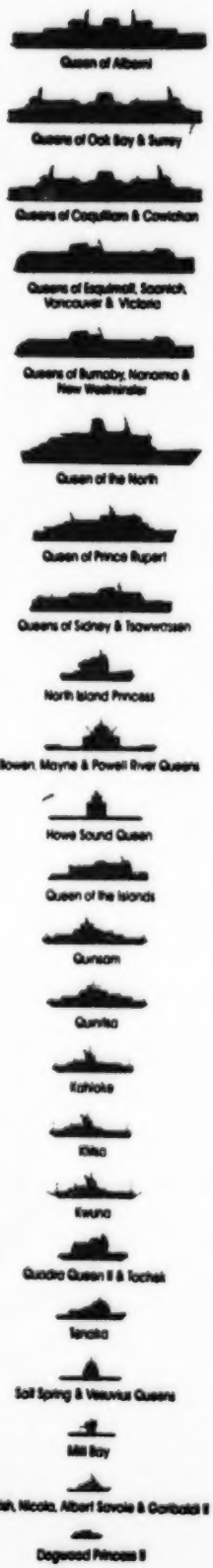


(*Figures express millions)

Catering Attendant Patricia Foley cashiers in the ship's cafeteria.

OUR FRIENDSHIP FLEET

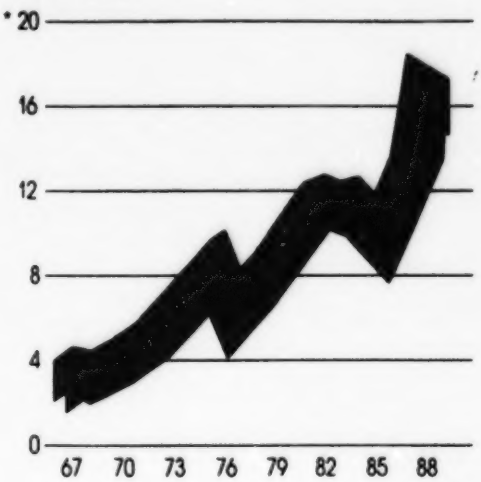
Vessels According to Vehicle Capacity	Year Built	Length (ft.)	Tons (Gross)	Capacity (Auto)	Capacity (Pass.)
Queen of Esquimalt	1963	427	9304	376	1,394
Queen of Saanich	1963	427	9302	376	1,394
Queen of Cowichan	1976	457	6551	362	1,466
Queen of Coquitlam	1976	457	6551	362	1,466
Queen of Oak Bay	1981	457	6969	362	1,466
Queen of Surrey	1981	457	6969	362	1,466
Queen of Alberni	1976	457	5863	310	1,415
Queen of Vancouver	1962	427	9357	286	1,360
Queen of Victoria	1962	427	9294	286	1,360
Queen of Burnaby	1965	427	4903	192	987
Queen of Nanaimo	1964	427	4939	192	987
Queen of New Westminster	1964	427	4904	192	987
Queen of the North	1969	410	8807	157	750
Queen of Sidney	1960	336	3128	138	989
Queen of Tsawwassen	1960	336	3127	138	989
Queen of Prince Rupert	1966	332	5864	80	458
Powell River Queen	1965	279	1486	70	400
Howe Sound Queen	1964	241	805	70	400
Mayne Queen	1965	279	1476	70	394
Bowen Queen	1965	279	1476	70	394
Quinsam	1982	285	1458	70	400
Quinitsa	1977	245	1107	50	300
North Island Princess	1958	197	841	49	280
Queen of the Islands	1963	236	1717	45	483
Salt Spring Queen	1949	145	276	36	187
Vesuvius Queen	1950	150	277	32	177
Quadra Queen II	1969	163	771	30	200
Tachek	1969	163	751	30	150
Kahloke	1973	180	466	30	150
Klitsa	1972	156	348	26	150
Kwuna	1975	180	347	26	150
Tenaka	1964	155	651	18	206
Mill Bay	1956	120	175	16	168
Nicola	1960	110	255	16	134
Albert J. Savoie	1961	114	256	16	138
Nimpkish	1973	111	266	16	138
Garibaldi II	1964	110	337	7	332
Dogwood Princess II	1979	42	21	—	38



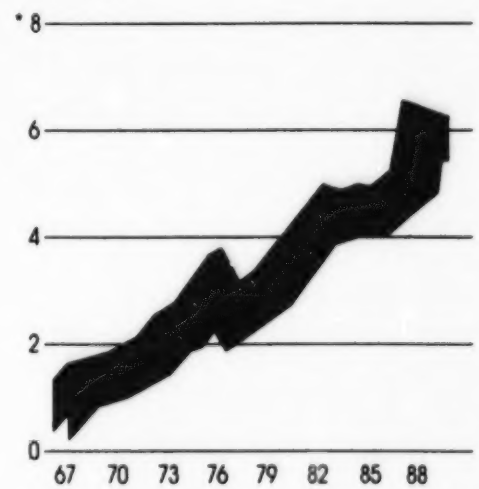
TRAFFIC HISTORY

Year	Passengers	Vehicles
1961	692,000	221,000
1962	2,040,000	597,000
1963	2,665,000	895,000
1964	3,180,000	1,034,000
1965	3,300,000	1,185,000
1966	4,000,000	1,333,000
1967	4,477,000	1,516,000
1968	4,361,000	1,530,000
1969	4,774,000	1,733,000
1970	5,671,000	2,102,000
1971	5,963,511	2,228,412
1972	6,771,837	2,662,505
1973	7,629,385	2,824,964
1974	8,538,297	3,169,582
1975	9,612,501	3,558,234
1976	9,912,738	3,760,099
1977	8,383,502	3,044,167
1978	9,018,976	3,258,017
1979	10,399,203	3,758,628
1980	11,423,405	4,161,302
1981	12,612,898	4,625,917
1982	12,763,664	4,712,951
1983	12,275,466	4,462,731
1984	12,397,905	4,482,707
1985	11,912,943	4,460,069
1986	13,497,102	5,050,165
1987	18,235,197	6,525,684
1988	17,014,098	6,490,918
Total	**233,422,628**	**85,373,052**

Total Passengers



Total Vehicles



(* Figures express millions)

Paul Wong, Senior Ticket Agent, controls traffic from the terminal control tower.

AUDITOR'S REPORT

To the Lieutenant-Governor in Council
Province of British Columbia:

We have examined the balance sheet of British Columbia Ferry Corporation as at March 31, 1988 and the statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The financial statements for the preceding year were examined by other Chartered Accountants.

Clarkson Gordon

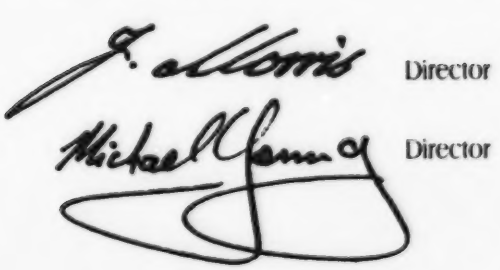
Chartered Accountants.
Victoria, Canada.
May 18, 1988.

FINANCIAL STATEMENTS

As at March 31, 1988

Assets (expressed in thousands)	March 31, 1988	March 31, 1987
Current assets		
Cash (Note 1)	$22,129	$10,974
Accounts receivable	2,826	1,668
Inventories (Note 2)	11,022	10,565
Prepayments and deposits	2,668	1,461
Current portion of reserved funds (Note 3)	5,700	5,700
Current portion of debenture (Note 4)	835	770
	45,180	31,138
Reserved funds (Note 3)	12,297	11,090
Debenture (Note 4)	40,130	40,966
Fixed assets (Note 5)		
Ships, berths, buildings, equipment and land	557,641	548,349
Less accumulated depreciation	293,377	263,713
	264,264	284,636
Deferred charges (Note 6)	3,359	4,693
	$365,230	**$372,523**

Approved by the Board



Director

Director

Liabilities (expressed in thousands)	March 31, 1988	March 31, 1987
Current liabilities		
Accounts payable and accrued liabilities	$23,966	$26,902
Deferred revenue	2,032	2,580
Current portion of long-term debt (Note 7)	5,700	5,700
Current portion of obligations under capital leases (Note 8)	1,280	1,128
	32,978	36,310
Long term debt (Note 7)	31,858	37,558
Obligations under capital leases (Note 8)	87,791	88,591
Accrued sick leave liability (Note 9)	5,705	4,728
	158,332	167,187
Shareholder's equity		
Share capital		
Authorized		
1,000,000 shares without par value with a maximum consideration of $100,000,000		
Issued		
68,512 shares	6,851	6,851
Contributed surplus (Note 10)	250,401	250,401
Deficit	(50,354)	(51,916)
	206,898	205,336
	$365,230	**$372,523**

FINANCIAL STATEMENTS

(expressed in thousands) Year ended March 31, 1988	1988	1987
Operating revenues		
Tolls	$138,591	$131,938
Catering	28,201	30,585
Parking & other income (Note 11)	1,696	1,431
	168,488	163,954
Less cost of food and goods sold	11,550	12,619
	156,938	151,335
Operating expenses		
Salaries, wages and benefits	111,080	113,144
Fuel and lubricants	25,418	26,922
Operating supplies and services	16,542	16,437
Repairs, maintenance and replacements	16,233	18,647
Marketing, general and administrative	4,795	5,580
Contracted services	2,015	1,886
	176,083	182,616
Operating income (loss) before subsidy	(19,145)	(31,281)
Province of British Columbia subsidy (Note 12)	57,000	57,000
Income from operations	37,855	25,719
Investment income (Note 11)	5,593	2,619
Interest expense (Note 13)	12,223	10,387
Net interest expense	6,630	7,768
Income before depreciation	31,225	17,951
Depreciation	29,663	29,552
Income (loss) before extraordinary item	1,562	(11,601)
Extraordinary item (Note 14)	—	1,951
Income (loss) for the year	**$ 1,562**	**$(9,650)**

(expressed in thousands) Year ended March 31, 1988	1988	1987
Deficit at beginning of year	$ 51,916	$ 32,400
Income (loss) for the year	1,562	(9,650)
	50,354	42,050
Dividend paid February 12, 1987 (Note 16)	—	9,866
Deficit at end of year	**$ 50,354**	**$ 51,916**

(expressed in thousands) Year ended March 31, 1988	1988	1987
Sources (Uses) of cash		
Cash from operations		
Operations (Note 15)	$ 27,231	$ 20,309
Extraordinary item (Note 14)	—	1,951
	27,231	22,260
Financial activities		
Payments from reserved funds	5,700	—
Long term debt payment	(5,700)	—
Payments received on debenture	771	—
Capital lease	102	41,756
Capital lease payments	(750)	(1,025)
Payments to reserved funds	(5,327)	(322)
Appreciation of reserved funds	(1,580)	(4,208)
Dividend paid (Note 16)	—	(9,866)
Purchase of debenture	—	(41,736)
	(6,784)	(15,401)
Investment activities		
Fixed asset additions	(9,292)	(10,519)
Disposal of fixed assets	—	8,702
	(9,292	(1,817)
Increase in cash	11,155	5,042
Cash at beginning of year	10,974	5,932
Cash at end of year	**$ 22,129**	**$ 10,974**

Note: In this statement cash includes only cash available for day to day operations and does not include Reserved Funds cash.

FINANCIAL STATEMENTS

Year Ended March 31, 1988

In accordance with Section 8(7) of the Ferry Corporation Act the financial statements of the Corporation are prepared in accordance with generally accepted accounting principles. Significant accounting policies adopted in the preparation of these financial statements are as follows:

Inventories

Inventories are valued at the lower of cost and current replacement cost.

Long-Term Disability Plan

The Corporation records as a current year expense the estimated present value of payments, until retirement, to employees eligible under the Long-Term Disability Plan. The plan is administered by the Superannuation Branch of the Public Service Commission, which receives and invests premiums from the Corporation. The excess of premiums paid under the Plan over the reserves required for future payments is included in prepaid expense. In 1987 there was a deficiency of funds which was included in accrued liabilities.

Fixed Assets:

Acquired from the Province of British Columbia:

Effective January 1, 1977

(a) Ships

Ships, which comprise part of the total assets acquired from the Province effective January 1, 1977 by Order-In-Council dated December 16, 1976 and transferred at an assigned value of $1, have been revalued by the Corporation and are reflected in the accompanying financial statements at their estimated depreciated replacement value as at January 1, 1977.

Three ships presently under charter by the Province until 1994 are subchartered to the Corporation for the same period at an annual cost of $1 each. Under the terms of the subcharter agreement with the Province, the Corporation may in 1994 request that the Province exercise its option to purchase these ships at its own expense in which case clear title to the ships will be transferred to the Corporation. Accordingly, these ships are reflected as capital assets of the Corporation in the accompanying financial statements and are stated at their estimated depreciated replacement value as at January 1, 1977.

(b) Berths, buildings and equipment

Berths, buildings and equipment transferred at an assigned value of $1 are reflected in the accompanying financial statements at their estimated depreciated replacement value as at January 1, 1977.

Effective October 1, 1983

On October 1, 1983 the remaining buildings and equipment at Deas Dock facility, not acquired from the Province on January 1, 1977 were transferred at an assigned value of $1. These assets are reflected in the accompanying financial statements at their estimated depreciated replacement value as at October 1, 1983 based upon an appraisal made by Universal Appraisal Company Limited as at that date.

Additions and disposals subsequent to January 1, 1977:

The costs of major replacements, additions, extensions and improvements are capitalized in the fixed asset accounts. The costs of maintenance, repairs, minor renewals or replacements are charged against income. On retirement or disposal of fixed assets, the costs thereof and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the statement of income.

Depreciation

Fixed assets are depreciated on the straight line method based upon the following useful lives:

Ships	25 years
Berths	5 - 10 years
Buildings and equipment	4 - 25 years

Leases

All leases which transfers substantially all of the benefits and risks incidental to the ownership of property are accounted for as if they were acquisition of assets and incurrence of obligations at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. Assets recorded under capital leases are amortized on a straight-line basis over their useful lives.

Amortization of Long-Term Debt Discount and Issue Costs

Promissory note discount is amortized on a compound interest method over the term of the debt. Issue costs for promissory notes and capital leases are amortized on a straight-line basis over the term of the debt.

Provision for Annual Refit Costs

The Corporation provides for ship refit expense by charging against income the anticipated costs over the period between refits.

Comparative Figures

Certain comparative figures have been reclassified to conform with the presentation adopted for the current year.

Year Ended March 31, 1988

1. Cash

Funds, other than those required for immediate settlement of liabilities, are invested in short-term securities authorized pursuant to the terms and provisions of the Financial Administration Act of British Columbia. The investments are arranged through the Ministry of Finance of the Province.

2. Inventories

	1988	1987
	(expressed in thousands)	
Spare components, parts and supplies	$ 9,278	$ 8,893
Fuel and lubricants	1,083	1,089
Goods for resale and catering supplies	661	583
	$ 11,022	$ 10,565

3. Reserved Funds

	1988	1987
	(expressed in thousands)	

The Corporation has segregated investments that are required for specific purposes or as required by long-term debt and capital lease obligations.

Sinking funds for long-term debt (Note 7)		
Administered by the Corporation	$ 9,497	$ 10,930
Less amount included in current assets to satisfy currently due debt repayment	5,700	5,700
	3,797	5,230
Administered by the Province	1,582	1,132
	5,379	6,362
Sinking fund for capital lease (Note 8)		
Administered by the Province	1,213	—
Fund for accrued sick leave liability (Note 9)		
Administered by the Corporation	5,705	4,728
	$ 12,297	$ 11,090

The current portion of $5,700,000 included in the Reserved Fund balance of $16,790,000 at March 31, 1987, has been reclassified to current assets to conform with the presentation adopted for the current year.

4. Debenture

	1988	1987
	(expressed in thousands)	
8.18% Debenture with the Province of British Columbia due December 10, 2006	$ 40,965	$ 41,736
Less: Principal due within one year	835	770
	$ 40,130	$ 40,966

By agreement with the Province, semi-annual payments to the Corporation equal the amount required under the lease obligation for the Queen of Oak Bay (Note 8). Excess funds are placed in a sinking fund to cover increased payments on the lease (Note 3).

5. Fixed Assets

	1988			1987
	(expressed in thousands)			
	Cost or Appraised Value	Accumulated Depreciation	Net Book Value	Net Book Value
Ships owned	$262,213	$142,914	$119,299	$133,420
Ships under capital lease	127,828	45,787	82,041	87,315
Berths, buildings and equipment	155,632	104,676	50,956	55,322
Land	5,695	—	5,695	5,493
Construction in progress	6,273	—	6,273	3,086
	$557,641	$293,377	$264,264	284,636

6. Deferred Charges

	1988	1987
	(expressed in thousands)	
Long-term debt discount and expenses	$3,021	$4,337
Lease executory costs	338	356
	$3,359	$4,693

7. Long-term Debt

	1988	1987
	(expressed in thousands)	
8.95% Promissory notes (effective rate of 15.75%), are repayable in five equal annual instalments of $5.7 million	$22,800	$28,500
Less current portion	5,700	5,700
	17,100	22,800
12.08% Promissory note (effective rate of 12.44%) due September 9, 2003 is repayable by annual sinking fund payments of $322,492	14,758	14,758
	$31,858	$37,558

Principal and sinking fund payments due in each of the next five years:

1989	1990	1991	1992	1993
$6,022,492	$6,022,492	$6,022,492	$6,022,492	$322,492

The Province of British Columbia unconditionally guarantees the payment of principal and interest on the promissory notes.

8. Obligations Under Capital Leases

	1988	1987
	(expressed in thousands)	

The Corporation has obligations under capital leases for the M.V. "Queen of Oak Bay", M.V. "Queen of Surrey", M.V. "Quinsam" and other equipment. Total minimum lease payments are:

M.V. "Queen of Oak Bay"		
Implicit interest rate 8.14%	$ 95,524	$ 98,564
M.V. "Queen of Surrey"		
Implicit interest rate 8.685%	86,406	90,578
M.V. "Quinsam"		
Implicit interest rate 10.64%	8,089	10,034
Other equipment — Tractor		
Implicit interest rate 10.0%	49	109
Other equipment — Forklift		
Implicit interest rate 10.44%	138	—
	$190,206	$199,285
Payable in fiscal year ending in:		
1988	$ —	$ 8,532
1989	8,434	8,522
1990	8,379	8,473
1991	8,379	8,473
1992	9,216	9,310
1993	9,216	9,199
1994 and subsequent	146,582	146,776
	190,206	199,285
Less interest	101,135	109,566
Present value of net minimum capital lease payments	89,071	89,719
Less current portion	1,280	1,128
	$ 87,791	$ 88,591

(continued)

Year Ended March 31, 1988

9. Accrued Sick Leave Liability

On September 1, 1978 the Corporation introduced short-term illness and injury and long-term disability plans and as of that date all employees ceased accruing sick leave credits. Under the collective agreement with the employees, in the event of illness, the accumulated sick time may be withdrawn prior to retirement. On retirement, any balance remaining is payable in cash at 50% of accredited time.

An actuarial evaluation by The Alexander Consulting Group Limited (formerly Reed Stenhouse Associates Limited) as at March 31, 1988 determined that the recorded liability for the portion payable on retirement was $395,000 in excess of that required. This excess is being reflected in operations over three years ending March 31, 1990. In addition, the actuarial evaluation of withdrawals prior to retirement in event of illness for $1,000,909 has been recorded in the accounts for the current year.

Funds reserved for liquidation of this liability are invested in short-term securities (Note 3).

10. Contributed Surplus

	1988	1987
	(expressed in thousands)	
Excess of estimated depreciated replacement value over assigned value of $1 of assets acquired from the Province of British Columbia		
— Ships, berths, buildings and equipment acquired January 1, 1977	$249,674	$249,674
— Buildings and equipment acquired October 1, 1983	727	727
	$250,401	$250,401

11. Other Income

	1988	1987
	(expressed in thousands)	
Parking income	$ 942	$ 964
Other income	754	467
	$1,696	$1,431

Interest earned on funds in bank and investments of $2,619,000 included in Other Income at March 31, 1987 has been reclassified to investment income to conform with the presentation adopted for the current year.

12. Provincial Subsidy

The Corporation received a cash subsidy of $57,000,000 (1987 — $57,000,000) from the Province of British Columbia. This cash subsidy is determined annually.

Additionally, included in fixed assets as "ships under capital lease" are three ships leased from the Province at an annual cost of $1 each. The annual cost of these charters to the Province is $4,819,800 which is included in the provincial "Estimates" as part of the subsidy to the Corporation.

Also, the Corporation utilizes Crown land for terminals and highway access without the payment of rental or property taxes. The value of these benefits has not been determined. The Corporation, as an agent of the Crown, is not liable to taxation, including taxation on improvements, except insofar as the Crown is liable.

13. Interest Expense

	1988	1987
	(expressed in thousands)	
Interest expense, amortization of promissory note discount and amortization of debt issue cost on:		
— long term debt and capital leases	$ 12,222	$ 10,296
— short-term borrowings	1	91
	$ 12,223	$ 10,387

14. Extraordinary Item

Recovery of receivables in 1987 from British Columbia Steamship Company (1975) Limited written off in Fiscal Year 1982/83.

15. Cash from Operations

	1988	1987
	(expressed in thousands)	
Income (loss) for the period before extraordinary item	$ 1,562	$(11,600)
Items not involving cash		
Depreciation	29,663	29,552
Amortization of promissory note discount and debt issue costs	1,334	1,170
Increase (decrease) in accrued sick leave liability (Note 9)	977	(339)
Cash generated from (used for) operating working capital		
Accounts receivable	(1,158)	(147)
Inventories	(457)	25
Prepayments and deposits	(1,207)	(479)
Accounts payable and accrued liabilities	(2,935)	1,262
Deferred revenue	(548)	866
Cash generated from operations	$27,231	$20,309

16. Dividend

The dividend was paid from the proceeds of the sale of the M.V. "Princess of Vancouver" and the extraordinary item (Note 14) in 1987.

17. Pension Plan

The Pension (Public Service) Act applies to the Corporation and its officers and employees. Accordingly, the Corporation is required to pay into the Public Service Superannuation Fund amounts equal to employees' contributions required under the Act.

CORPORATE INFORMATION

Head Office
Fleet House
1112 Fort Street
Victoria, B.C.
V8V 4V2

Auditors
Clarkson Gordon
1010 Bank of Commerce Building
1175 Douglas Street
P.O. Box 1205
Victoria, B.C.
V8W 2V3

Bankers
Royal Bank of Canada
Victoria, B.C.

Canadian Imperial Bank of Commerce
Victoria, B.C.